

EXHIBIT 37

REDACTED

Message

From: [REDACTED]@google.com
Sent: 7/9/2013 9:19:18 PM
To: [REDACTED]@google.com
CC: [REDACTED]@google.com; [REDACTED]@google.com
Subject: Re: Eliminating 2nd price bids

I have a couple questions and thoughts about this proposal. Admittedly I'm a bit unclear about some details so please correct me.

Below I have some questions, concerns with what I understand to be the current proposal but before I get into the negative I wanted to ask a question/suggestion for something simpler to do:

More or less the extra money comes from eliminating the second price bid submission so the adwords auction functions as a bidding club. Now after some thought this seems totally reasonable. After all the model for AdX specifically is designed to allow other networks to do the same thing so why shouldn't we do that for our customers. So instead of this complicated and potentially harmful modification of bids why not just hand the money we make functioning as a bidding club directly back to the advertisers. That is what competition will force the other networks to do so why not us as well?

1) Now second price auctions have various theorems that (non-colluding) actors have optimal strategies to bid their true value. As I understand the proposal it is exactly to bid above the true value we assign that slot. I wouldn't expect this to work out that in a liquid market we would underperform bidding the true value. This is my biggest worry.

I understand that the underlying suggestion is that the market is not liquid and that advertisers are behaving irrationally. I was wondering if you had a model/theory about how exactly the model was failing. This would help figure out just how best to respond.

2) As I understand it the idea is not to transfer money from one publisher to another by insisting that lower payments to one publisher be used to increase bids on other slots by the same publisher. However, this doesn't seem to actually work out to a fair deal for the publisher. As I understand on AdX each publisher can run their offer by multiple networks (or internal ads that are worth something to that publisher). So now if google ends up paying publisher \$.50 less on one ad and then google uses that 50c to increase bids for other slots that publisher offers that only ends up being zero-sum change if the advertiser had no other options on the later ads. I mean merely leaving those other ads blank, filling with internal ads (look at our other page) or selling to other networks are all options for those other slots so the true amount of value they get out of our increased bids could be arbitrarily close to zero making the next effect a loss of .50c to that advertiser.

This doesn't mention the implicit unfair transfer of value from one advertiser to another. As I understand it one advertiser might buy a slot at price X while (because we choose not to submit the second price) leaves us with a pot of money to use to boost other ads. But that boost might go to another advertiser and if some advertisers are more likely to generate this pot of money it in effect transfers money from one advertiser type to another. If I have misunderstood and it is supposed to be constant across advertisers same problem occurs with respect to publishers since some publishers might end up being compensated out of money previous being assigned to other publishers.

3) Lastly, there is the question of whether this is even possible. The paper linked in this discussion had the following remark:

In particular the following passage from the article linked seems to suggest that the change being suggested would cause problems with contractual arrangements in adwords:

If a network i , wishes to simulate second price auction among its bidders, it can do so using the optional bid oi by correctly specifying the second highest bid among its bidders as oi ($= 8$ in the example). In this case, from the point of view of all its bidders, the OSP auction is completely indistinguishable from a true second price auction. This is true whether or not any of the other networks send the correct second bid. Thus, honest second price networks can simulate their business with little overhead. **In the absence of this feature, networks that have contractual obligation with their bidders to run a second price auction (such as Google's Adwords network) will have to significantly modify their logging and billing system to correctly track the spend.**

[REDACTED]

On Mon, Jul 1, 2013 at 1:48 PM, [REDACTED] [\[REDACTED\]@google.com](mailto:[REDACTED]@google.com) wrote:

+ [REDACTED] To fill you in, I discussed some of the happenings at the offsite with my team, and here's an interesting comment from [REDACTED].

On Mon, Jul 1, 2013 at 1:39 PM, [REDACTED] [\[REDACTED\]@google.com](mailto:[REDACTED]@google.com) wrote:

After thinking about it for a little bit it occurs to me that submitting our second price bid to AdX is a way of treating each of our bids as if they had been bids on AdX. Not submitting our 2nd price bid would be a way of gaming our own bid system.

I mean in a second price auction the following kind of collusion is beneficial to bidders:

Create a group of advertisers who bid amongst themselves on a given query and only submit the top bid from the group. Now the advertisers who are members of that group are just as likely to win the bidding but since only a single bid was submitted from all members of the group the price they pay will be no more, and frequently less, than if members of the group had bid directly in the second price auction.

If we stopped submitting a second price in the AdX bid it would be essentially like we were gaming our own auction by creating just that kind of group.

[REDACTED]